

**NASD**  
**LETTER OF ACCEPTANCE, WAIVER AND CONSENT**

20050002450-02

**TO: Department of Market Regulation  
NASD**

**RE: John F. Mangan, Jr., CRD No. 1255558**

Pursuant to Rule 9216 of NASD Code of Procedure, I submit this Letter of Acceptance, Waiver and Consent ("AWC") for the purpose of proposing a settlement of the alleged rule violation described in Part II below. This AWC is submitted on the condition that, if accepted, NASD will not bring any future actions against me alleging violations based on the same factual findings.

I understand that:

1. Submission of this AWC is voluntary and will not resolve this matter unless and until it has been reviewed and accepted by NASD's Department of Enforcement and National Adjudicatory Council ("NAC"), pursuant to NASD Rule 9216;
2. If this AWC is not accepted, its submission will not be used as evidence to prove any of the allegations against me; and
3. If accepted:
  - a. this AWC will become part of my permanent disciplinary records and may be considered in any future actions brought by NASD or any other regulator against me;
  - b. this AWC will be made available through NASD's public disclosure program in response to public inquiries about my disciplinary record;
  - c. NASD may make a public announcement concerning this agreement and the subject matter thereof in accordance with NASD Rule 8310 and IM-8310-2; and

- d. I may not take any action or make or permit to be made any public statement, including in regulatory filings or otherwise, denying, directly or indirectly, any allegation in this AWC or create the impression that the AWC is without factual basis. Nothing in this provision affects my testimonial obligations or right to take legal positions in litigation in which NASD is not a party.

I also understand that my experience in the securities industry and relevant disciplinary history may be factors that will be considered in deciding whether to accept this AWC. That experience and history are as follows:

John F. Mangan, Jr. was first registered with NASD in 1992, as a general securities representative with Friedman, Billings & Ramsey & Co., Inc. ("FBR"). He was registered with FBR for eleven years; he left the firm on November 25, 2003, when FBR filed a Form U5 on his behalf. He has not been registered with NASD since that date. Mangan held Series 4, 5, 7, 15, 24, 63, and 65 licenses. Mangan has no disciplinary history.

#### I.

#### WAIVER OF PROCEDURAL RIGHTS

I specifically and voluntarily waive the following rights granted under NASD's Code of Procedure:

- A. To have a Formal Complaint issued specifying the allegations against me;
- B. To be notified of the Formal Complaint and have the opportunity to answer the allegations in writing;
- C. To defend against the allegations in a disciplinary hearing before a hearing panel, to have a written record of the hearing made and to have a written decision issued; and
- D. To appeal any such decision to the NAC and then to the U.S. Securities and Exchange Commission and a U.S. Court of Appeals.

Further, I specifically and voluntarily waive any right to claim bias or prejudgment of the General Counsel, the NAC, or any member of the NAC, in connection with such person's or body's participation in discussions regarding the terms and conditions of this AWC, or other consideration of this AWC, including acceptance or rejection of this AWC.

I further specifically and voluntarily waive any right to claim that a person violated the ex parte prohibitions of Rule 9143 or the separation of functions prohibitions of Rule 9144, in connection with such person's or body's participation in discussions regarding the

terms and conditions of this AWC, or other consideration of this AWC, including its acceptance or rejection.

## II.

### ACCEPTANCE AND CONSENT

- A. I hereby accept and consent, without admitting or denying the allegations, and solely for the purposes of this proceeding and any other proceeding brought by or on behalf of NASD, or to which NASD is a party, to the entry of the following findings by NASD:
1. FBR has been a member firm since 1989. Its principal place of business is in Arlington, Virginia. FBR also had offices in Charlotte, North Carolina, where Mangan worked from 1999 until he left the firm in November 2003.
  2. At all relevant times, Mangan made investment decisions for several hedge funds, including FBR proprietary hedge funds and funds managed by M&M partners, a holding company that Mangan owned with his business partner. Mangan's partner also owned HLM Securities LLC ("HLM"), a general partner and investment advisor to the M&M hedge funds. Some M&M funds maintained accounts at, and traded through, FBR.
  3. FBR treated the M&M funds as proprietary accounts. Under FBR's procedures, all of Mangan's hedge fund trades were required to be supervised by FBR, and all hedge fund trades had to be cleared through the firm's Compliance Operating Procedure System ("COPS"), which checked proposed trades against the firm's watch list. FBR also required that the firm approve all of Mangan's hedge fund trades before a trade could be made.
  4. Compudyne is a Maryland-based company whose common stock is traded on the Nasdaq National Market System. Through various subsidiaries, Compudyne provides physical and electronic security products and services to jails, prisons, courthouses, and other government buildings; produces bullet, blast, and attack resistant windows and doors; and provides specialty engineering and security services to U.S. Government intelligence agencies.
  5. In September 2001, Compudyne entered into an investment banking relationship with FBR to raise capital by means of a private placement. Compudyne and FBR agreed to structure the private placement as a so-

called "PIPE," or a "private investment in public equity."

6. A PIPE is a private offering whereby accredited investors agree to privately purchase securities issued by a reporting company on the condition that a re-sale registration statement will be effective within a certain period of time. If the SEC approves the registration statement, the investors obtain their shares, which they then can sell to public investors on the open market.
7. In the Compudyne PIPE, as set forth in the "Confidential Private Placement Memorandum" ("PPM"), the company offered to sell 1,080,000 new shares of common stock and arranged for the sale of another 1,370,000 shares of common stock and warrants controlled by William Blair Mezzanine Capital Partners II.
8. By September 28, 2001, FBR began to market the PIPE offering to its clients.
9. Not later than about September 28, 2001, Mangan learned through a firm-wide research call that FBR had an investment banking relationship with Compudyne. Within a few days of first learning that FBR was Compudyne's placement agent for the PIPE, Mangan received copies of the Compudyne PPM, a Purchase Agreement, and a sales script that FBR salespersons were to use to market the PIPE transaction to potential investors.
10. Because of the pending PIPE deal, CDCY was placed on FBR's watch list on September 24, 2001.
11. Mangan wanted to invest in the PIPE through one of the M&M funds, and, by October 4, 2001, Mangan expressed an interest to FBR, on behalf of M&M, in purchasing about 250,000 shares of CDCY.
12. After expressing M&M's interest, Mangan contacted senior FBR officials to inquire whether he could invest in the PIPE through an M&M fund. Senior FBR officials told Mangan in substance that a person associated with FBR should not invest in the Compudyne PIPE, and refused Mangan permission to buy shares in the PIPE.
13. After being told by FBR that M&M should not invest in the PIPE, Mangan arranged for his partner to buy PIPE shares in the name of HLM. Mangan and his partner agreed that Mangan would advance all the funds necessary to buy the PIPE shares, without interest, and that Mangan and his partner would share equally in all profits from the PIPE. This agreement was not memorialized in writing. The entire amount to purchase the shares was to

come from Mangan's personal funds.

14. By the evening of October 8, 2001, HLM expressed an interest to FBR in buying 80,000 shares of CDCY in the PIPE.
15. On October 8, 2001, Compudyne and FBR agreed to "price" the PIPE at \$12.00 per share. At 8:29 a.m., on October 9, 2001, HLM faxed to FBR the signature page of a Purchase Agreement that Mangan's partner signed on behalf of HLM for the purchase of 80,000 shares of CDCY at \$12.00 per share. Mangan's partner was the only signatory for HLM on the Purchase Agreement.
16. At all relevant times, Mangan failed to seek and obtain written permission from FBR to purchase an interest in the Compudyne PIPE and failed to disclose that he had arranged to acquire an interest in the Compudyne PIPE through HLM or that he had agreed to share profits from the PIPE transaction with Mangan's partner.
17. FBR paid Mangan a commission of approximately \$6,880 as the broker responsible for HLM's PIPE purchase.
18. By early Tuesday morning, October 9, 2001, Mangan caused HLM to place an order to sell CDCY stock.
19. When the markets opened on October 9, the executing broker, NDB Capital, began working HLM's sell order. ABN-AMRO Securities LLC, M&M's prime broker, cleared the trades. On October 9, 2001, NDB Capital sold 50,000 shares of CDCY on behalf of HLM. On October 12, 2001, at Mangan's direction, HLM sold another 30,000 shares of CDCY.
20. All of HLM's sales of CDCY were short sales.
21. Because of Mangan's actions, both the executing broker and M&M's prime broker treated HLM's sales as "long" sales, and no affirmative determinations were made that HLM could locate shares to borrow in order to make delivery by settlement date.
22. From October 9 through October 29, 2001, HLM never borrowed shares of CDCY to sell short and never delivered shares to cover HLM's short position, intending to profit by covering the short sales of CDCY with the PIPE shares that HLM was entitled to buy at \$12.00 per share when the shares became registered.
23. At the close of the trading day on October 29, 2001, the SEC declared effective the registration statement for the Compudyne PIPE shares.

24. On or about October 31, 2001, Mangan caused HLM to cover its 80,000-share short position using the 80,000 shares of CDCY that HLM had bought in the PIPE for \$12.00 per share.
25. As they had agreed, Mangan and his partner shared equally in HLM's profits from the sale and purchase of CDCY. Mangan received a total profit of approximately \$87,069.
26. By engaging in the conduct set forth above, Mangan effected transactions in and induced the purchase and sale of securities by means of a deceptive device or contrivance, in violation of NASD Conduct Rules 2120 and 2110.
27. Mangan shared directly and indirectly in the profits and losses in the account of a customer carried by a member firm, without securing advance written permission from FBR, in violation of NASD Conduct Rules 2330(f) and 2110.
28. Between approximately October 9, 2001, and October 12, 2001, Mangan caused the failure to make and annotate affirmative determinations that 80,000 shares of CDCY were available for delivery by settlement date, in violation of NASD Conduct Rules 3370 and 2110.

B. I also consent to the imposition, at a maximum, of the following sanctions:

1. a permanent bar in all capacities from associating with any NASD member firm; and
2. a fine of \$125,000.

The sanctions imposed herein shall be effective on a date set by NASD staff.

### III.

#### OTHER MATTERS

- A. I understand that I may attach a Corrective Action Statement to this AWC that is a statement of demonstrable corrective steps taken to prevent future misconduct. I understand that I may not deny the charges or make any statement that is inconsistent with the AWC in this Statement. This Statement does not constitute factual or legal findings by NASD, nor does it reflect the views of NASD or its staff.

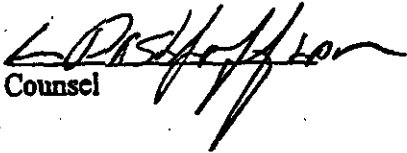
- B. I agree to pay any monetary sanctions imposed on me upon notice that this AWC has been accepted and that such payments are due and payable and have attached an Election of Payment form showing the method by which I propose to pay any fine imposed.
- C. I specifically and voluntarily waive any right to claim that I am unable to pay, now or at any time hereafter, any monetary sanction imposed in this matter.

I certify that I have read and understand all of the provisions of this AWC and have been given a full opportunity to ask questions about it, and that no offer, threat, inducement, or promise of any kind, other than the terms set forth herein, has been made to induce me to submit it.

11/16/05  
Date

  
John F. Mangan, Jr.

Reviewed by:

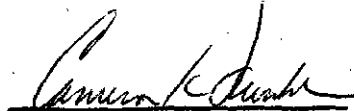
  
Counsel

for

Respondent

Accepted by NASD:

11/21/05  
Date

  
Cameron K. Funkhouser  
Senior Vice President  
Department of Market Regulation

Signed on behalf of the Director of ODA, by  
delegated authority

Attachment: Standard Election of Payment Form